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Carnegie Endowment for International Peace

DIVISION OF ECONOMICS AND HISTORY

JOHN BATES CLARK, DIRECTOR

PRELIMINARY ECONOMIC STUDIES OF THE WAR

EDITED BY

DAVID KINLEY

Professor of Political Economy, University of Illinois
Member of Committee of Research of the Endowment

No. 10

WAR THRIFT

BY

THOMAS NIXON CARVER

Professor of Political Economy, Harvard University

NEW YORK

OXFORD UNIVERSITY PRESS

AMERICAN BRANCH: 35 WEST 32ND STREET

LONDON, TORONTO, MELBOURNE, AND BOMBAY

1919

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EDITOR'S PREFACE

This study by Professor Carver on " War Thrift " is published too late to be of use to the American public in war time. But the subject is one on which we, as a people, have many lessons to learn, even in time of peace. For that reason alone the publication of the study will be helpful, especially in view of the excellent treatment of the subject by the author. Professor Carver's treatment is both theoretical and practical and should be useful in helping us to order our public and private affairs so as to secure greater economy.

DAVID KINLEY.

University of Illinois.

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WAR THRIFT

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CHAPTER I

The Meaning and Function of Thrift

In order to get a clear idea of the relation of thrift to the strength of the nation in war time, it will be necessary to analyze the nature of thrift and its relation to national economy in general. To begin with, it should be perfectly clear that thrift does not mean the hoarding of money. To hoard money is one of the most thriftless things one can do with it. The miser of romance who kept his money in a secret hoard where he might gloat over it and enjoy the sensations of feeling, hearing and seeing it was, in the strictest possible sense, a thriftless consumer of wealth. Instead of using money as a tool of production or instrument of business, he was using it as a means of direct physical enjoyment. To have used it for the adornment of his body would scarcely have been more frivolous, thriftless or selfish.

Thrift, no less than extravagance, consists in using money — that is, in spending it. The sole difference is in the purpose or purposes for which it is used or spent. To spend money for immediate and temporary gratification is extravagance. To spend it for things which add to one's power, mental, physical, moral or economic, is thrift. To spend it for tools of production wherewith one may increase his productive power is thrift. For a farmer to spend money on a luxurious automobile, when he needs a tractor with which to cultivate his land, is extravagance. To spend the same amount of money for a tractor, when he needs one with which to cultivate his land more thoroughly and increase his productive power, is thrift. Money is spent as truly in one case as in the other. It stimulates business as effectively in the one case as in the other. But when money is spent extravagantly, it adds nothing to the productive power,

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either of the individual or of the nation. To spend it thriftily is to add to the productive power of both the individual and the nation.

It is sometimes argued, of course, that if everybody spent all his surplus income for tools of production and nobody spent anything for luxuries, there would soon be overproduction, that is, the community would soon have such a supply of tools of production as to enable it to produce more than its thrifty consumers were willing to buy. Whatever validity this argument might have in normal times, it would obviously not apply to war conditions when the danger is not of overproduction but of underproduction; when the problem is not how to consume the things which are produced, but how to produce the things which are necessary to the salvation of the country, not how to give the people the largest number of pleasurable sensations, but how to develop the maximum national strength. In this war in particular this has been an acute problem. Everywhere the cry has been to speed up production in order that our soldiers might have military supplies, and ships to transport them, and that our civilian population and that of our allies might have food and other necessaries of life.

The fear of overproduction is groundless, even in normal times. The tendency in a thrifty community is for capital, that is, the tools of production, to increase and become so abundant as to reduce the rate of interest, giving the owners of capital a smaller share of the product and consequently giving the other participants in production a larger share. In addition there is a larger production in a thrifty community because such a community is well supplied with all the tools and instruments of production. The danger that there would be an oversupply of capital, that is, of tools, is counteracted by the tendency of interest rates to fall, thus reducing somewhat the inducement to save. The economic forces work in precisely the same way to check the overaccumulation of capital as they do to check the overproduction of wheat, potatoes, or anything else. When there is a tendency toward the overproduction of wheat, the price tends

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to fall and this acts as an automatic check on further production by removing one of the inducements to the production of wheat.

The theory that too much thrift would result in overproduction is precisely like the theory that too much industry would do the same thing. One might argue that if our moralists and preachers of righteousness continue to extol the virtue of industry and encourage all the people to work rather than to waste their time in sloth and idleness, the people might make the mistake of producing too much. Thrift and industry have very much the same effect in the long run on the total volume of production. Thrift is the means by which the community equips itself with durable goods and with the instruments of production. The community that spends all its income for immediate gratification can never add to its industrial equipment. The community that spends a part of its income not for immediate gratification, but for the distant future, for things which add nothing to its immediate satisfaction but which increase its productive equipment, is a community which grows in productive power from year to year and from generation to generation. Industry without thrift is as ineffective as is thrift without industry. The two together form the twin pillars of all industrial prosperity.

What has been said regarding the direction in which money is spent leads naturally to a consideration of the function of the spending of money in giving direction to the national energy. The energy of a community or a nation is directed either by authority or by persuasion. Men either do what they are told or what they are persuaded to do. By persuasion, however, is meant not merely verbal argument and wheedling; it includes the lure of personal advantage, the desire of pleasing some one whose good-will is esteemed, and a multitude of other things — in short, it includes practically everything which induces a man to act or which supplies him motivation, except the fear which lies back of all authority. Not the least important among the various forms of persuasion is the offer of a reward, pecuniary or otherwise. To offer a price for a commodity or a service is

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to attempt to persuade some one to produce the commodity or to render the service. Among all free peoples this form of persuasion has come to play a very large part in the direction of national energy. The gradual substitution of this form of persuasion for government authority is one of the most significant earmarks of progress. In a low state of civilization and in a militant society men do very largely what they are ordered to do by government authority. In a higher and freer state of civilization they do more and more what they are persuaded to do by the prices which are offered on the market. A high price for one thing and a low price for another means a large inducement for the production of one thing and a smaller inducement for the production of the other. A rising price for one thing and a falling price for another is the attempt of the purchasing public to induce more productive energy to begin producing one thing and less productive energy to remain in the production of the other.

Suppose, for example, it were a foregone conclusion that many more shoes were needed than were in process of production. There would be two ways of increasing the production of shoes. In the one case the government might by its own authority order an increase of production and detail a certain number of men from other industries or command them to enter the shoe-making industry. In the other case they who want more shoes than they have, begin to bid for them and offer higher prices in order to get them. These higher prices have the same effect in redistributing the labor power of the country as the government order would have in the other case. In order to obtain these higher prices, existing factories would speed up, would run overtime, would employ more men, or else new factories would be built to meet the increasing demand.

In case the desires of the public should undergo a considerable change, and the people should stop caring for one class of commodities and begin caring intensely for an entirely different class, the same alternative methods would present themselves. It would be necessary, of course, in order that production might

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adjust itself to the demands of the consumers that considerable productive power should be transferred either directly or indirectly from the industry which was producing the article for which there is a shrinking demand to the industry which was producing the article for which there is an expanding demand. This transfer of productive power could be effected by government authority. The government could merely say to a certain number of men — leave this industry and go and work in the other — precisely as soldiers are ordered to transfer their efforts from one part of the field to another. In a low state of civilization this method is used in redistributing the forces of the industrial army, but in all higher civilization the method is that of persuasion. The article for which the people no longer care will not be bought in large quantities and the people will not be willing to pay a high price for it. That in itself will partially remove the inducement to production. A certain amount of productive power will therefore be released from this industry. On the other hand the article for which there is an increasing demand can not at once be supplied in sufficient quantities to meet that demand. Some consumers will not be able to get what they want, and they will begin bidding against one another for the limited supply, thus forcing the price up. This advance in price is the persuasion which will lead investors, manufacturers and laborers to go into the industry which produces the article in question. Thus in the course of time, the transfer of productive power from the contracting to the expanding industry is made as effectively as though it had been made by a government order. It may be made a little less promptly, but much less violently, with less disturbance and with greater economy. On the battle field, promptness and secrecy are, of course, much more important than economy. In the industrial field, promptness and secrecy are of less importance and economy of greater importance. That is why the tendency in all advanced industrial communities is toward the method of price persuasion and away from the method of government compulsion.

Before we are in a position to understand the fundamentals

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of the thrift question, it can not be too much emphasized that in a free industrial society the way in which the people spend their money determines the direction in which the productive energy of the community is utilized. If, for example, no one is willing to purchase tools, or instruments of production, but every one demands articles of immediate enjoyment, tools will, of course, have no buyers and the tool-making industries will have no inducement to expand or even to continue. All the productive energy will be absorbed by the luxury-producing industries and even they will be poorly equipped, because no one will be willing to invest in equipment. Where one group of people is demanding luxuries for immediate consumption and another group is willing to invest in the tools of production, the latter group may then equip the luxury-producing industries with tools in order to produce for the supply of the former group. If all were willing to spend money on tools and no one were willing to spend very much on extravagant frills, there would be an abundance of tools for the production of all the things which would supply the moderate needs of the community. With these moderate needs supplied by the abundant productive power of the community, the people could either work short hours or in a leisurely manner, or they could use their abundant energy in producing things of durable or permanent value, such as school buildings of architectural beauty, roads, irrigation projects, the drainage of swamps and various other enterprises which would provide for posterity, enlarge the possibility of life in the national territory, and greatly expand the national power and greatness.

If the people of Athens had chosen not to adorn the Acropolis with architectural monuments, they might for a long time have consumed somewhat more luxurious food, worn somewhat more costly apparel and amused themselves in somewhat more expensive ways. That is, they could have devoted the national energy to the production of more luxurious food, clothing, and so forth. Instead of that, they chose to consume slightly less luxurious food and slightly less costly clothing than they might

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have had, in order to erect those buildings, which, if the Athenians had done nothing else, would have helped to justify their existence. It was the direction in which they decided to spend their money which decided whether the national energy should be used in the production of ephemeral utilities or durable sources of satisfaction.

The people of those medieval cities who erected cathedrals as monuments of their religious faith could, if they had chosen otherwise, have fed, clothed and amused themselves in more expensive ways, that is, the man-power which was used in the erection of churches could have been used in the production of objects of temporary gratification. They chose to spend their money for durable rather than for perishable goods and that is why the world was enriched by the religious architecture of the medieval period. Any modern city that chooses to get along with ineffective school buildings can for a few years keep its tax rate down slightly and the people may therefore have a little more money to spend on trivialities. If, on the other hand, they choose to build school buildings whose architecture will enrich the world as the church architecture of the medieval period did, they will have to cut down the amount of money which they would spend for other things and release a certain amount of productive energy from the production of frills and luxuries and make it available for the production of these objects of durable satisfaction.

Whether one thinks that it was the thrift or the extravagance of the Athenians which built the Parthenon, will depend upon whether one thinks that the building of the Parthenon was an important thing to do or not. If he regards it as a triviality, then he will call the building of it an extravagance and he will doubtless think how much better it would have been if the Athenians had used the same amount of money in purchasing and the same amount of energy in producing things which would have fed their bellies or adorned their bodies. If, on the other hand, he thinks that it was a very important thing to do — more important than anything else that they could probably have done

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with their money and their productive energy, he would say that it was thrift which built the Parthenon. The same question might be discussed with respect to the religious architecture of the Middle Ages and the same question, of course, arises in every city of the present day, when the problem of school architecture is discussed. To one who regards school architecture as a triviality, the building of magnificent and well-equipped school buildings seems an extravagance. He would doubtless regret that so much productive power should be used in the building of such things when it might be used for the production of things which would gratify the appetite or some other temporary desire. But to one who regards school architecture as something very important, the erection of such school buildings as some people would like to see would be called an act of thrift.

Much the same question, of course, could be discussed, if such discussion were tolerated, with respect to the war. There may be individuals here and there who regard the winning of this war as an extravagance, who regret the flesh pots of Egypt and yearn for the onions and garlic of the days preceding the war. But to one who regards the winning of the war as the supreme object of this generation, of such importance as not to be mentioned in the same breath with any of the luxuries with which our amazing prosperity has provided us during the last generation, spending money on the war instead of on those former luxuries will seem a very thrifty thing to do.

The general argument for thrift may be summarized as follows: Even in time of peace it is a good thing for a man to save and invest a part of his income. It is better for himself and for everybody else that he should do so than that he should spend his whole income on things for immediate consumption. In time of war especially it is far better to save and invest than to consume things which one does not really need.

In time of peace he who saves money, and invests it wisely, does himself good in two ways. He gains directly by having an

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income in addition to his wages or his salary. He gains indirectly by making better conditions for everybody, including himself.

It is easy to see that he gains directly. To have a hundred dollars invested, even at four per cent., is better than not to have it. It gives him four dollars a year over and above his other income; and four dollars a year, small as it is, is not to be despised.

It is not so easy to see, but it is none the less true, that saving and wise investing make conditions better for everybody including oneself. To save and invest, as stated above, is not to hoard. It is to buy things which are needed for production or defense instead of things which are good only for consumption or pleasure. To buy things, such as tools, machines, buildings, etc., which aid in production is to encourage the making of such things. When many people are investing in tools, many tools will be produced and industry will then be well equipped with aids to production. In short, there will be many factories well equipped with buildings, machines, and materials. That is a condition in which there is much employment.

One may buy either directly or indirectly those things which aid in production. When a farmer buys a traction engine rather than a luxurious automobile, he is buying directly a thing which aids in production rather than an article of consumption. If he has bought wisely, the traction engine will aid him to grow a larger crop, which is a good thing for him. It will also increase the food supply, which is a good thing for everybody. The more farmers there are who save money and invest it in instruments which aid in production, the better production we shall have and the better the world will be fed. When a factory owner builds an addition to his factory rather than a new dwelling house, he is buying directly various things which aid in production. If he builds wisely he will add to his income, which is a good thing for him. It will also add to the productive power of the community, which is a good thing for everybody. It is a good thing

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especially for laborers because it will require more laborers to run the enlarged factory than were required before it was enlarged. In short, it increases the demand for labor.

The more people there are who save their money and buy tractors, machines, factory buildings and all other aids to production, the better the community will be supplied with all such things. The better the community is supplied with all such things, the greater its productive power and the greater the opportunities for productive employment. That is the reason why laborers always emigrate from a country where there is little saving and investing to a country where there is much saving and investing.

But one may buy indirectly things which aid in production. When one deposits money in a savings bank, the bank will invest it. It may lend it to some farmer who wants to buy a tractor, a team, a cow or some other aid to production. It may buy part ownership in some factory, or in some other way encourage the buying of aids to production. The saver may himself buy the share in some corporation. In that case he becomes a part owner in the factory or whatever it is that the corporation owns. In all these ways, and in many others, one may buy indirectly all sorts of things which aid in production.

Indirect buying of such things has the same effect as direct buying. It encourages others to make the tools, machines, buildings and other things which aid in production. Nobody would make such things unless somebody would buy and pay for them. The only people who buy and pay for them are they who save and invest, who buy fewer articles of consumption than they might buy, and spend the money thus saved for things which aid in production. That is what it means to save and invest.

These reasons in favor of saving and investing are many times stronger in time of war than in time of peace. In time of war it is of the utmost importance that the materials and the man-power of the country be conserved. They need to be used for national defense rather than to produce things for private enjoyment beyond what is necessary for health, strength

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and efficiency. The way to conserve these things and turn them to national rather than private uses is for all of us to buy fewer things which we do not need. We shall then require fewer materials and less man-power to minister to our own gratification.

If we buy liberty bonds we shall have less money to spend on ourselves. But this does not mean that the money will not be spent. The government will have it to spend for the things which it needs for our defense. When the government spends it, it will stimulate the kinds of business which help win the war, whereas if we spend it on ourselves, it will stimulate the businesses which use for other purposes the materials and man-power which the government needs for its supreme purpose. If the government spends the money, it will give as much employment to labor as it would if we spent it on ourselves; the difference will be that the government will employ labor in ways that help win the war, whereas we would employ labor in ways that would not.

To invest, as stated above, is to spend money for things of vital and permanent value rather than for things of trifling or temporary value. Some of the most needed investments at the present time are war savings stamps and liberty bonds. To own a liberty bond is certainly better than not to own it. At the present time, it is not only better for you, it is also very much better for the whole country and the world that you should buy liberty bonds than that you should buy articles of consumption which you do not really need, even though you would like very much to have them. If you buy liberty bonds, the government will spend that money to hire men to build ships, make guns and ammunition and do whatever else is necessary for the defense of the liberty of the world. It is better for you and for everybody that you should spend your money indirectly for these things, than that you should spend it directly for some article of consumption which does you no real or lasting good.

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CHAPTER II

The Place of Luxury in National Economy

Scientific as well as popular discussion is somewhat divided on the question of luxury and its effect upon national prosperity. Not much headway can be made in clearing up this discussion without some attention to definitions. Adam Smith defined luxuries as articles which were wholly matters of individual indulgence and not demanded either by the physical health and strength of the people or by the rules of society. Others have made a separate class of goods called decencies, which includes everything prescribed by the rules of society, but not necessary either to the physical health, strength or comfort of the people. The dividing line between decencies or luxuries is, however, a very obscure and wavering one. What are meant, for example, by the rules of society? Do they include merely those forms of consumption which are demanded with practical universality by all members of a community, or do they include whatever one's particular class or set regards as proper for its members? If a person belongs, for example, to a small group of spendthrifts, he may claim that the rules of his social group compel him to spend money lavishly on things which other groups would regard as pure luxuries. Therefore, he might justify himself on the ground that these articles of consumption are to him only decencies. If we go so far as this in our definition of decencies, we shall find that there are practically no luxuries in the world. It would seem better, therefore, to confine our definition of decencies to those things which are prescribed by the almost universal consensus of opinion throughout the nation at the time. Thus, in America, for example, it would be almost universally thought indecent for a man to appear in public places,

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even in warm weather, without shoes. Before the advent of the waist-shirt it was generally regarded as improper or indecent for a man to appear in any public place indoors even in the hottest weather without a coat. With the spread of intelligence, however, certain large sections of the country have nullified this absurd rule. That every woman shall possess certain articles of finery is a rule even among the poorest of our people. To insist on the elimination of all such articles of consumption on the ground that they are luxuries would produce a great shock to our social feelings and would be justified only on the grounds of the most dire necessity. If we were threatened with an absolute famine, and our national existence depended upon reducing our consumption to the very lowest possible minimum, even these articles of consumption would have to be eliminated, and we should have to consume only those things which were absolutely necessary for health, strength and efficiency.

Luxuries should include, therefore, everything not required for health, strength and efficiency of the people and not demanded as decencies by the general consensus of opinion of the whole nation. Even though one's own social set may live on a certain scale of "conspicuous waste," even though one has been accustomed to associating with people who form their opinions as to an individual's respectability on the basis of the display which he can make of his wealth, or the lavishness with which he can advertise his solvency, one could not properly claim that either necessity or decency required him to spend so much, or to consume so many things. For every woman who is physically and mentally sound, even one servant is a luxury unless she is actually engaged in other productive work which would prevent her from doing her own housework. Membership in any kind of a club is a luxury to a man, even though all his particular friends and associates belong to it. But the ordinary conventional clothing and furniture of the ordinary household is a decency, even though in cases of dire necessity they might be dispensed with. Only a fraction of the human race, *i.e.*, the Christian nations, ever use chairs, for example. They could,

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therefore, scarcely be called necessaries. But within the pale of Christendom they are so universally used as to have become socially necessary, and it would not be decent to get along without them. Some kind of woolen clothing, consisting of coat, vest and trousers, is likewise a decency for men, as are the standard forms of food such as bread, meat and vegetables, even though some of these could be dispensed with in time of dire scarcity.

That the demand for luxuries has a stimulating effect upon industry has generally been recognized by economists as well as by the general public. J. R. MacCulloh [1] says that any gratification, however trivial, is necessary if an individual is stimulated to work in order to attain it. John Stuart Mill [2] points out that the work of civilizing the savage consists in part in inspiring him with new wants and desires as a motive to steady and regular bodily and mental exercise. It is a well known fact that in certain low states of civilization the laborer, or peon, is content with so few articles of consumption that he will not work efficiently or steadily.[3] If, by working for a part of a week, he can earn enough to support him for the entire week in the style to which he is accustomed, he will only work for part of the week. One way of inducing him to work for the entire week is to increase his wants or those of his family so that it will require a full week's wages to supply them. Even in our so-called higher stages of civilization, there is a tendency to reduce the number of hours per day for precisely the same reason. When men find that they can earn enough in four or five hours to support them for twenty-four hours, they insist on working only four or five hours a day. Others find that they can earn enough in twenty years to support them for the rest of their lives. They therefore retire from business long before their physical and mental capacity has begun to decline. The difference between

[1] *Principles of Political Economy*, Edinborough, 1895.
[2] *Ibid.*, Book I, Chapter 7.
[3] See T. N. Carver, *Principles of Political Economy*, Ginn and Company, 1919. Chapter 40.

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such men and the peon who works only a part of each week is much less than is commonly supposed.

Economically speaking, leisure itself with the opportunity for sloth, amusement or dissipation is a luxury to some people. The peon chooses between this form of luxury and some other form which he could afford with his wages if he were to deprive himself of leisure and work a full week. If he prefers leisure to those other luxuries which could be purchased with money, he will, of course, choose leisure. The same question presents itself and the same choice is made by those who decide to cut down the hours of the working day or the years of the working life.

As to which form of luxury it is better to choose from the standpoint of national economy, there may be some difference of opinion, but the economic arguments are overwhelmingly in favor of material luxuries rather than of leisure, though in this, as in all other economic choices, it is a question of degree. The well known principle of marginal utility applies here as to other economic choices. Material luxuries which are purchasable with money, as they increase in quantity tend to decline in utility or want-satisfying power, simply because the wants tend to become satiated. Let us assume that the longer one works the more goods he will be able to purchase with his earnings. Sooner or later these purchasable goods decline in their power to satisfy his wants, simply because his wants tend to be oversupplied. The desire for more goods ceases to be a strongly motivating desire. Sooner or later this desire becomes less intense than the desire for rest or leisure. The same principle applies to the desire for leisure. After one has rested for a few hours, the desire for another hour's rest becomes less intense than the desire for the first hour's rest was before it was enjoyed.

The individual in whom the desire for rest is very strong and the desire for purchasable commodities very weak will naturally, if he has any surplus time, devote a large proportion of his time to rest rather than to earning the means of purchasing goods. On the other hand, an energetic individual with a highly stren-

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uous nature, who delights in action and cares little for rest or leisure, and who, at the same time, has an intense desire for purchasable luxuries will, with equal certainty, choose to use his surplus time in earning the means of purchasing material luxuries rather than in rest or leisure. There is not much doubt that a nation made up of men of strenuous natures who delight in action and care intensely for the products of industry will be a stronger nation than one made up of people whose chief desire is for rest and leisure. The moral leader or preacher of righteousness whose business is to help create the ideals of the people and to direct their desires, that is, to make them desire the right things, will do well, therefore, if he labors to create strenuous natures with a strong desire for activity rather than slothful natures with a strong desire for rest and leisure, even though as a by-product of his moral teaching he should stimulate luxurious consumption.

However, the choice is not altogether between leisure on the one hand and material luxuries on the other. It is quite possible to develop strenuosity, the delight in action, and those motives which characterize an energetic nation by other means than the desire for luxury. Even though, as John Stuart Mill pointed out, one of the first steps in developing the willingness on the part of a vacillating savage to engage in steady work may be the increase of his wants, it does not follow that this is the only thing which will appeal to the civilized man.

Before going far with our discussion of methods of creating strenuosity, we should consider further whether it is worth while or not. We should be particularly on our guard against an uncritical commendation of strenuous production for its own sake. It is true, of course, that a community which chooses to take its luxury in the form of consumable material goods rather than in such immaterial forms as leisure and rest will have more goods. Business will be more active, the statistics of wealth will be expanded, the census taker and tax assessor will find more tangible evidence of wealth in such a community than they would find in a community which preferred to take its

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luxury in the form of leisure. We who are members of a strenuous race to whom leisure does not seem so very desirable, of a race, also, which might be classed as greedy or gluttonous, having more desires for material wealth than for leisure, think we have made the wiser choice. We are therefore inclined to point the finger of scorn at the slothful races who have chosen otherwise. But there is such a thing as the pot calling the kettle black.

There is, however, a more critical and intelligent argument in favor of the choice which we have made. This argument goes back as far at least as David Hume. It is to the effect that luxuries serve as a storehouse of labor which, in the exigencies of war and other calamities, may be turned to public service. In other words, a community which in time of peace has expended a large proportion of its energy in the production of luxuries, may in time of great national crisis, stop producing luxuries and turn its surplus energy into the work of meeting the crisis. In time of war, for instance, the consumption of luxuries may be cut down and the productive energy which had been used in the production of luxuries may be used in the prosecution of the war, in the manufacture of munitions and war equipment and so forth.

The nation which took its luxury in the form of leisure might also be said to have a surplus of national energy to spare which could be used in the prosecution of war. That is to say, instead of spending a part of its time in idleness, it could use all that surplus time in the prosecution of the war. But, on the other hand, such a nation would probably not have the experience in technical production, nor would it have the technical equipment which could be turned quickly from the production of articles of consumption to the production of materials of war. As between two nations with equal population and equal natural resources, the advantage would probably be on the side of the one that had used its surplus energy and resources in the production of multitudes of goods. The nation that had produced only the necessaries of life and spent its surplus time in leisure

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would find it as hard to give up its leisure as the strenuous nation would find it to give up its material luxuries. In addition to that, the leisurely nation would have to learn many of the arts of technical production and equip itself with tools and machinery. Not having a wide and varied experience in all sorts of mechanical industries, not having the habit of strenuous, mechanical effort, such a nation would probably find more difficulty in turning its surplus energy effectively into the war industries than the strenuous nation, which would only need to give up the consumption of luxuries in order to turn its mechanical equipment, as well as its wide and varied mechanical skill, into the production of the necessaries of war.

While the arguments are overwhelmingly in favor of strenuosity rather than leisure, there is still a choice to be made as to the means of stimulating strenuosity. A strenuous nation whose chief delight is in activity may choose to spend its time and energy lavishly in the production of capital rather than of consumers' goods, of durable sources of satisfaction, rather than of those of ephemeral sources of satisfaction, which are commonly known as luxuries. A nation that chooses to work strenuously at the making of tools and engines of production, the building of roads, schoolhouses, public buildings of all sorts, at the draining of swamps, the irrigation of dry land, the clearing of forests and stony lands, can use up all its surplus energy in these ways as easily as it could if it chose to produce articles for immediate and temporary gratification. In a time of great national crisis, it would have a vast amount of equipment ready to be used in the crisis, in addition to which it could reduce the rate of permanent construction; that is, it could stop making tools and engines of production, stop building roads and schoolhouses, it could stop draining swamps, clearing broken land and irrigating dry land, and turn all that energy into the army and navy and the war industries. The nation which had been using its energy for a century or so in these constructive ways would be in a better position to wage a successful war, or meet any other national calamity, than the nation which had been pro-

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ducing luxuries on a vast scale for immediate consumption. In the first place, it would have as much surplus energy to turn into the war industries, besides having a vastly better equipment in the way of durable construction to begin with.

Even in cases of local disaster, such as fire or earthquake, as well as in time of war, recovery usually comes with amazing rapidity to a people with an abundance of surplus energy. In spite of the fact that vast quantities of wealth are destroyed, a city which has suffered disaster soon recovers and becomes to all outward appearance as prosperous as ever. Luxury is supposed by some to have an important bearing on this question. The real factor, however, is the surplus of energy which the community has which may be turned to the task of rebuilding what was destroyed. Whether that surplus existed in the form of leisure, in the production of luxuries, or in the construction of durable equipment, it is, after the disaster, available for rebuilding, which is only another form of durable construction.

We grant without further argument the validity of the contention that in normal times luxury is a storehouse of labor, that through the production of luxuries labor "keeps its hand in," as it were, that men have wide and varied experience in all kinds of mechanical production, and that all this energy and skill may be redirected toward the war and the war industries. This would furnish, however, the poorest kind of an argument in favor of a continuation of luxurious consumption in time of war. In fact, the validity of this argument depends absolutely upon the willingness of the people to cut off luxury in war time. If they are unwilling to do this, if they insist on living as luxuriously in time of war as in time of peace, the validity of this argument for luxury is absolutely destroyed. If they demand as many luxuries in war time as in peace time, there is no energy that can be released for war purposes. If luxury is a storehouse of labor it would be, in this case, a storehouse which could never be drawn upon in time of need; it would be about as useful as money locked up where it could not be got at.

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The essential thing is that there shall be a fund of surplus energy which may be devoted to extraordinary purposes in extraordinary times. Whether this surplus energy exists in the form of leisure, of man-power devoted to the production of luxuries, or of man-power devoted to the production of tools, engines, roads, bridges, architectural monuments and other sources of durable satisfaction is a minor question, though one of considerable importance in itself.

A great preventive of the accumulation of a fund of surplus human energy is the tendency toward the multiplication of numbers. If there are too many people trying to wrest a living from a limited geographical area, it may require all their energy to procure the means of subsistence, so that they will have none left for leisure, for luxury or for permanent construction. It is a well known fact, for example, that vegetation tends to become so dense as to use up in mere survival and multiplication all the fertility, moisture, light and other essentials of growth which the limited space affords.[1] If, for any accidental reasons, the vegetation in a certain spot should not be so dense as to use up all its resources, its power of multiplication is so great and the tendency toward multiplication so powerful as to speedily increase the density to the point of equilibrium.

By the point of equilibrium is meant a condition in which all the energy of the plant is required for the mere process of keeping alive and reproducing itself. Vegetables seem to have no means of arresting this process or of accumulating a fund or store of surplus energy. Nature seems everywhere to preserve a sort of balance, or equilibrium, between the demands of living things and the supply of the essentials of life. This applies not simply to vegetable life, but to animal life and to human life, at least in its lower forms. In the absence of disturbing causes, human population tends to become so dense as to require all the energy of the people to procure subsistence enough to sustain that energy. A community which possesses more energy than is

[1] See T. N. Carver, *Essays in Social Justice*, pp. 132–133.

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required to keep itself alive and to replace the energy used up in the work of gaining subsistence, may be said to possess surplus energy. Nature, however, tends to dissipate any such surplus energy in various ways: First, through the multiplication of numbers, and second through gluttonous consumption. In a few cases, however, and in the history of this planet they are very few, special branches of the human species have succeeded in achieving something more than this. That achievement may be called a storing of surplus human energy. Such a result is possible only where nature's process of dissipation has been arrested and human energy has been used for other purposes than its own physical maintenance.

The effective agency by means of which this store of surplus energy is effected is the expansion of human desires beyond the two elemental desires of hunger and sex. The strengthening of the desire for leisure until it will take precedence over the desire for sexual gratification may lead a community to keep its population within such limits as will enable its people to procure sustenance with a part of its energy. In that case it will have a surplus of energy to be devoted to leisure. In other cases, the desire for material luxuries may take precedence over sexual desire and lead the people, through what is known as a high standard of living, to defer marriage and control the average size of the family and thus keep the population within such limits as will enable them to procure physical sustenance with a part of their energy. In this case, the surplus energy can be devoted to the production of material luxuries.

But thrift is quite as effective an agency of control as the desire for either leisure or material luxuries. The effective desire for accumulation may become strong enough to hold the dissipating tendencies in check, to reduce the size of families and raise the age of marriage. A community made up of people who insist on saving something each generation and adding to the accumulations of capital will have as large a surplus of energy as a community that insists upon leisure or material luxuries. In short, the desire for life insurance, for a savings

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deposit, for an investment in productive business, for increase in the stock of tools and equipment, enters into the standard of living of a progressive people as truly as does the desire for sirloin steak, silk dresses, or automobiles. It has precisely the same effect on the age of marriage, on the size of families, in arresting the dissipating tendencies in the world of physical nature as do the less constructive desires for leisure and luxury. In addition, it has the effect of adding to the industrial equipment of the community generation after generation. It is no accident, therefore, that the nations which take their surplus in the form of frequent holidays, of graceful consumption, and elegant leisure, have long since fallen behind in the progress of civilization, while those nations which have preserved a kind of emotional interest in the austere and productive life, whose ideals of life have centered in the future rather than in the present, have become the great nations in every modern sense.

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CHAPTER III

The Relation of Thrift to War Economy

Mere size is of no advantage to a fighter if it be made up largely of fat. A lean and muscular man may easily whip a fat man of twice his size when all the lean man's body either fights or supplies the fighting parts and half the fat man's body does neither. The same principle applies to nations at war. Mere size is of no advantage if it consists of people who neither fight nor work to help the fighters by supplying them with what they need. They who do neither of these things are mere fat in the body politic. A war is won, not by the side which has the most people, but by the side which manages to keep the largest number of well trained men on the firing line and to keep them best supplied with the materials of war. Only that part of the population counts toward the winning of a war which is either in the fighting forces or supporting the men who are there by keeping them supplied. Others are negligible so far as winning a war are concerned, whatever other uses they may have or think that they have.

For a modern nation to put its full strength into the fighting forces requires a vast production of war materials. To fill the fighting ranks and to produce war supplies on an adequate scale requires a vast outlay of man-power. Where to get this man-power is therefore the fundamental problem of war economy. The nation which solves it most effectively has, other things equal, the best chance of winning.

There are three sources from which this fund of man-power may be drawn. First, those who were idle in time of peace may be put to work. Second, those who were at work may work harder by speeding up, by working longer hours, or by

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taking fewer holidays. Third, they who were doing unnecessary things may stop and begin doing necessary things.

All three sources must be drawn upon in order to get the best results. Those who were taking their peace time prosperity in the form of leisure must sacrifice their leisure, those who were taking it in the form of short hours, slack work, and frequent holidays must sacrifice these advantages, and those who were taking it in the form of non-essential articles of consumption must sacrifice them and cut their consumption down to that minimum which is necessary for health, strength and efficiency. Otherwise the nation will not be able to exert its full strength or to mass its full man-power upon the war and the war-winning industries. If the sides are at all evenly matched, the side which is willing and able to make these three sacrifices and to utilize to the full all these sources of man-power will win, and the side which is unwilling to make these sacrifices must expect to suffer humiliation and defeat.

That those who were idle should be put to work is so clear as to need no discussion. No one cares, as a matter of fact, to defend the leisure class. Anybody can see that an idle man is a man going to waste. It ought to be equally clear that a man who is idle a part of every day, or certain days of every week is also in part going to waste. Unfortunately, however, this proposition strikes so close home to many influential people as to produce some discussion and even to create resentment in certain quarters. The tendency among such people, especially in democratic countries, is even to demand shorter hours and more holidays in war time. In autocratic countries they can be dealt with by force. Nothing but an intense patriotism which will lead them voluntarily to sacrifice ease and amusement for the national good can overcome this tendency in a democratic country.

The greatest difficulty, however, is met with in trying to convince people that they ought to sacrifice material luxuries and stop buying non-essentials. People do not see so readily that a man who is hired to produce a non-essential is going to waste

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from the standpoint of war economy as truly as though he were idle. This difficulty could be overcome, however, were it not for the systematic efforts of those who are profiting from the production of non-essentials to becloud the issue and nullify the efforts of the nation to mobilize its man-power in the essential industries.

In both England and the United States the slogan "business as usual" was raised at the beginning of the war, and was kept up as long as a patient public would tolerate it. It was perceived to be a palpable absurdity as soon as people realized what was involved. They were soon convinced that the great economic problem of the war was not that of keeping the national energy in the old channels, but of redirecting it into the new channels. Questions of money, finance, industry, thrift, taxes, war loans, ships, food, labor — in fact, every special question was really a part of that great question and must be solved with special reference to it. They saw that we must manage in some way to redirect the whole energy of the nation and bring it to bear upon a new set of objects in order to promote the great purpose of winning the war, rather than the multifarious purposes of peace. They began to see that the first question to be asked regarding any proposed public policy, however detailed it might be, was: how will it affect the redistribution of the national energy? Will it or will it not enable us to mass more man-power at the points where it is needed in order to win the war?

But the work of redirecting our national energy met with many obstacles, not the least of which was due to the change of habit or of occupation which it required of large numbers of people. They who had been directing their own energy and that of other people toward the objects of peace, found that they must in most cases rearrange their plans, their habits and their work. It was not always easy to see the connection between a change of habit which was required and the winning of the war. Therefore, some people were impatient of the necessary discipline and restraint. Not only is a change of habit

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required, but a general disarrangement of business plans. They who were doing in time of peace things which are equally necessary in time of war, suffered no loss and in some conspicuous cases have greatly profited. They who had been doing in time of peace things which were not necessary for the winning of the war were threatened with a loss of business and of income. This doubtless seemed unfair — that some should profit while others should lose, as the result of the war. But fairness to all concerned and a nice and equitable adjustment of burdens and awards in war time has never been possible, either for the soldiers in the ranks or for the civilians at home.

A certain resentfulness was shown by individuals here and there of all classes who were unfavorably affected. Manufacturers or dealers in non-essentials became active in obstructing regulations and in opposing economies which were absolutely necessary. Advertising sheets, commonly called newspapers, persistently fostered the idea that there are no non-essential industries and they therefore advocated a *laissez faire* policy with respect to their own kind of profiteering. There were strikes and threats of strikes on the part of various labor organizations, even against the better wisdom and advice of their national officers.

We can not, therefore, single out any particular group or class of citizens for reproach. All classes were equally guilty and equally meritorious; that is, there were individuals in all classes who were willing to suffer inconvenience and hardship in order to win the war and there were others who were not. There is not the slightest doubt that a strike in any essential industry was a hindrance to the great work of massing manpower at the points where it was needed. Neither is there the slightest doubt that the refusal to economize in food, or to save money in order to buy liberty bonds was equally disloyal and equally calculated to obstruct the government in its efforts to win the war.

The exponents of the "business as usual" fallacy were in the earlier days of the war in the habit of asking peremptorily

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for a list of the non-essential industries whenever any one suggested a contraction of non-essential business in order to make possible the necessary expansion of the essential industries. Some even went so far as to say dogmatically that there were no non-essential industries. What they obviously meant was that there were no undesirable industries, though even such a statement as that could hardly be defended. However, a desirable industry is not necessarily the same as an essential industry.

The problem of economy for the nation is very much the same as for the individual. It is the problem of choosing the more important to the exclusion of the less important things; not that the less important things are in themselves undesirable, but merely that they are less essential than certain other things. Few individuals have ever been in the fortunate position of being able to afford everything which they might like to have. In time of special crisis, the wise individual will deprive himself of many things which are in themselves desirable merely because there are other and more desirable things which he must have. To fail to do this is to fail to meet the crisis. The same necessity is upon the nation.

To say that, in the present crisis, there are no non-essential industries is almost like saying that all industries are equally essential, which is an absurdity. That would be like saying that it is just as important that we should have jewelry for private enjoyment as ammunition for national defense, that we should have automobiles for pleasure riding as ambulances, army trucks, aeroplanes and farm tractors, or that we should have those articles of wearing apparel which gratify pride and vanity as overcoats and blankets for our soldiers.

On the other hand, to say that one group of products is more important in this crisis than another, does not necessarily and in every case mean that the one group should be produced to the complete and absolute exclusion of the other. It may simply mean that the production of the one should be greatly expanded and that of the other greatly contracted. When the individual family finds itself facing a crisis, like severe sickness, it is not

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necessary that it stop buying food and clothing in order to buy medicines and pay doctor's bills. It may be necessary, however, to buy less expensive food and clothing in order to have money to spend for things which, in the crisis, are more important than some of the expensive items of food and clothing which were formerly bought.

If it were possible to classify all our industries as absolutely essential or absolutely non-essential, with no middle group, the problem would be very simple. The government could by edict close all the non-essential industries, or refuse them fuel, raw materials, freight cars, etc., in order that these things might be reserved for the essential industries. The government has already stopped the distillation of potable alcohol, and might well go farther in the same direction. But the number of industries whose products are absolutely useless or non-essential is very limited. Most of those which are not classed as absolutely essential belong in a middle group. Their products are desirable or essential in limited quantities, whereas larger quantities are non-essential.

Even essentials are frequently bought in non-essential quantities. Coal, in moderate quantities, is an essential, but an individual may consume it luxuriously, keeping too many rooms warm, or keeping them too warm. Sugar, wheat flour and a number of other things which would scarcely be called non-essentials may easily be consumed in non-essential quantities. But the list extends far beyond these few commodities which are woefully scarce. Even millinery could scarcely be called absolutely non-essential; we need some kind of headgear, but we may easily buy too much.

A government decree is a singularly clumsy and unscientific method of dealing with an industry of this middle group. If the millinery industry were peremptorily and arbitrarily closed it would not only stop the production of unnecessary finery, but also of the necessary headgear. It is the consumer rather than the producer who must be reached. The best, the most effective and the most scientific method is simply to increase our income

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taxes until we are forced to cut our consumption down to essentials.

The next question, and in some respects the more difficult question, is what to do with the labor which is now employed in the non-essential industries. The closing down of a non-essential industry, or the reduction of the scale of production to the essential limits will undoubtedly throw some men out of employment. If it would not save man-power, coal or raw materials, nothing would be gained by it.

In the first place, however, the necessary expansion of the essential industries requires a great increase in the supply of labor. This alone will take care of all those who are fitted for the particular kinds of work which are needed. Our farmers are at their wits' end to know where they are going to get help. The shipyards are calling for men by the tens of thousands. There never was a time when men were in such demand.

When our government stopped the distillation of potable alcohol, there was no great difficulty in utilizing the labor power for other purposes, though there were doubtless individual cases of hardship. It is not probable that any war can ever be carried on without inflicting hardship in individual cases. Nevertheless, everything possible should be done to reduce these hardships to the minimum.

In many individual cases there will be men and women who can not easily turn their skill to account in the essential industries. In other cases it will involve moving from the place called home to another place. Even though the other place be equally desirable, nevertheless the change may involve some real hardship in addition to the inevitable regrets. However, provided the transition can really be made without severe hardship or positive discomfort, it will be only such a loss and sacrifice as every true citizen must be prepared to make in time of war and which our laboring people, like all right-minded people, are perfectly willing to make.

In order to meet this situation adequately, and reduce the hardships and discomforts of the transition to the absolute

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minimum, there must be an organization. This organization must be big enough to cover the whole country and to penetrate into every nook and corner. The Department of Labor in Washington is already organizing for the purpose of handling this problem. However, unless it is adequately supported, so that it may reach into every neighborhood, it may be like a fire department with one thousand feet of hose trying to fight a fire which is two thousand feet from a hydrant.

The first thing to do is to see that the organization can actually reach every case. Having once perfected an organization adequate to deal with the problem, it must, in the main, work out its own methods of procedure. No man is wise enough to foresee every difficulty which may arise. However, there are a few things which it must obviously do. In the first place it should aid in the distribution of the war work in order that as much of it as possible be taken over by those industries which have had to cut down their production of non-essentials. In some cases, no one can say in advance how many, there need be no closing down or partial closing down of factories. They can simply turn to other kinds of work, to the work which produces necessaries rather than luxuries.

In the second place, our organization should catalogue every person who is or is likely to be thrown out of work by the closing of non-essential industries. Every person's training and capabilities should be noted and recorded. Then, as far as possible, no one can say in advance how far this will be possible, the persons so catalogued should be drawn upon for the labor which will be required for the necessary expansion of certain essential industries which must be greatly expanded. It must be borne in mind, that, even with the most rigid economy, more labor is going to be needed during this war than ever was needed before, that the demand for additional labor in the essential industries will more than balance any possible falling off in the demand in the non-essential industries. With this great fact in mind, it will be seen that it is just as important that our organization shall discover available supplies of labor for the

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expansion of the essential industries as that it shall provide employment for the surplus labor from the non-essential industries.

In the third place, our organization should provide with the utmost speed adequate training schools where men and women may be trained for the industrial needs of the country as officers and soldiers are now being trained for the military needs. This will, in many respects, be the most important work of our organization. Instead of waiting until special kinds of skill are needed, it should anticipate the need and have men and women trained. They should, while undergoing the course of training, be paid a standard minimum wage which will enable them to live.

The first two parts of the work of our organization will provide the essential industries with such unskilled labor as they require, will also provide a certain amount of skilled labor such as is already trained and capable of being fitted in, and will provide employment for every worker in a non-essential industry who can be fitted into the essential industries. The third phase of the work of our organization will provide an immediate living wage for every one who can not at once be fitted into an essential industry and will also provide a course of training which will soon fit him in at some point where he can earn more.

If our organization will undertake these three kinds of work on a comprehensive scale, we can transfer all our productive energy from the non-essential industries without any suffering and with only such inconvenience or hardship as all high-spirited and loyal people are ready and willing to endure for the sake of winning the war. This will enable us to mass our man-power where it is needed and to avoid the mistake of scattering shot too much. It can not be too often repeated that this war will be won not by the side which has the most man-power but by the side which manages to mass the most man-power at the points where it is needed. We have the man-power; the next thing is to mass it where it is needed. Nothing else will win the war. The more comprehensive and thorough-going our

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plans for the massing of our vast man-power, and the sooner we get them into operation, the sooner the war will be over.

This massing of our man-power, or this concentration of the national energy upon the war and the war industries is to be accomplished mainly through considerable changes of occupation. They who have been doing nothing or doing things that have no bearing on the winning of the war are to begin doing something which positively helps to win the war. This can be accomplished in part through the exercise of government authority — conscription of men for the army and the navy is such an exercise of government authority. It is possible, of course, that laborers as well as soldiers should be conscripted. There are other and less direct methods by which government authority may accomplish the same purpose. By refusing coal or transportation facilities or other essential elements to an industry, it may be closed down or greatly restricted in its operations. It will therefore be compelled to discharge a certain number of men. These may then voluntarily seek employment in the essential industries. But this redistribution of man-power will have to be accomplished mainly, in any free country, through the agency of thrift, either voluntary or involuntary. When the people stop buying a given article, or buy it in smaller quantities than formerly, the industry must either close down or run on a reduced scale. This will release a certain amount of man-power from the industry in question and make it available for the essential industries.

There was so much opposition to the thrift campaign, the newspaper interests of the country were so generally arrayed against the government on the subject of thrift, as to raise the question in the minds of many publicists as to whether it would not be better to give up the campaign for voluntary thrift and adopt the general policy of conscription. Of course, if the government should adopt such a policy, the non-essential industries would be crippled through the loss of men quite as effectively as they would through the loss of customers in the program of voluntary thrift. The production of non-essentials would be

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forcibly and arbitrarily reduced and the consumers of non-essentials would therefore be compelled, whether they liked it or not, to consume less. This would result, therefore, in a kind of enforced thrift. Aside from the general unattractiveness of a wholesale program of conscription and other exercise of government authority, the proposal itself would be unnecessary if the people were willing voluntarily to do what it is proposed that the government should compel them to do, that is, cut down their consumption of non-essentials.

The only reason why it is difficult to get capital and men to go into the war industries is because they are so profitably employed in other industries. If there was no profitable employment for either in the unnecessary industries, both labor and capital would be glad and anxious to go into the necessary industries.

The only reason they can be so profitably employed in the unnecessary industries is because so many of us are willing to spend our incomes on unnecessary things. If no one would spend any money on unnecessary things, neither capital nor labor would have any inducement or motive to continue in the unnecessary industries or in the production of unnecessary things.

If we continue spending lavishly in the purchase of unnecessary things, then profits and wages will be so high in the unnecessary industries that large funds of capital and large numbers of laborers will remain in these industries and will not be willing to go into the war industries. In that case, the only method of getting labor and capital for the war industries will be some form of conscription. Having made one economic blunder, that of continuing our luxurious consumption of unnecessary things, it will be necessary to counteract the results of that folly by an exceedingly clumsy and wasteful device, namely, the conscription of capital and labor.

If we are unwilling voluntarily to cut down our expenditure for unnecessary things, the government must interpose its authority and compel us to do so whether we like it or not. The conscription of capital and labor for the necessary industries

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would be one way, but a rather clumsy one, of compelling us to cut down our consumption. If capital and labor are forced into those industries which are made necessary by the war, there will be that much less left to produce the things which we can get along without. We must then perforce consume less of these things.

Another rather clumsy way would be for the government to issue vast sums of new money or purchasing power with which to buy war supplies and to hire men. If we individuals are each and every one left with as much money to spend as we had before the war, it will take as many men to produce for us as it did before the war. But when the government begins to expend its new purchasing power, it will be bidding against us with its new money and we will be bidding against it with our existing incomes. This will send prices skyward. The result of these inflated prices will be that we can not buy so many things as we did before for the simple reason that our existing incomes will not purchase so much as they did before. By this method we, as individuals, shall be forced to consume less than we did before the war. Another way of putting the same thing would be to say that the government with its new purchasing power would outbid us with our old purchasing power. It could pay such a price for war supplies and men that capital and labor would stop producing luxuries for us and go to producing necessaries for the government. We should then be unable to get luxuries or unnecessary things.

On the whole, the best way of compelling us to cut down our consumption of unnecessary luxuries would be to tax us. Whenever I pay a dollar in taxes I have one dollar less to spend on luxuries and in persuading capital and labor to stay in the luxury-producing industries. At the same time, the government has that same dollar to expend in the purchase of war supplies and in persuading capital and labor to go into the war industries. If the government will tax to the bone, so that none of us has anything to spend on frills and luxuries, capital and labor will have no inducement whatever to remain in the frill and

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luxury-producing industries. On the other hand, the government will have an abundance to spend on necessary war supplies, and in persuading capital and labor to go into the war industries.

Another method, not quite so good, is for the government to borrow largely. The money which I spend for a liberty bond I can not spend for luxuries. The government has it to spend on the necessaries of war. Up to this point, borrowing accomplishes much the same result as taxing. However, after I have got my liberty bond, my credit is a little better than it would have been if I had paid in taxes the same amount as I paid for the bond. This may lead me to purchase, on credit, a little more liberally than I would otherwise have done. In that case I shall still be trying to keep capital and labor in the unnecessary industries and out of the war industries.

There is no more elementary, fundamental or important truth to be learned by our people than the simple truth that every time any one spends a dollar for an unnecessary thing he is furnishing an inducement to capital and labor to continue in the production of unnecessary things and to stay out of the war industries. He should turn that dollar over to the government to be spent for the necessary things. Then the government can use it to induce capital and labor to go into the necessary industries. That is very much better in every way than conscription.

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CHAPTER IV

The Relation of War Thrift to Reconstruction after the War

What will happen when the government stops buying war supplies and hiring men for war purposes? Arithmetic will convince any one that unless private citizens are then prepared to buy more goods and hire more men than they are now doing, there must be a slump in buying and considerable unemployment. We shall then have just the reverse of the conditions which we had when the government began buying such vast quantities of war supplies, and hiring so many men for war purposes. If at that time private citizens had cut down their purchases in amounts corresponding to the increase of government purchases, there would have been no total increase of purchases and no inflation of prices. But when private citizens tried to keep up the old rate of purchasing while the government was purchasing enormous quantities of war supplies, there was an enormous increase in total purchasing and considerable inflation of prices. Deflation of prices will follow the close of the war as certainly as inflation followed its beginning, unless the purchases of private citizens expand enough to make up for the contraction of government purchases.

How can we manage to have private citizens increase their purchases when the war is over? They will scarcely be in a position to do this if they persist in spending all their money now as fast as they get it. If they spend it lavishly now, they will only force prices up, and they will not have it to spend when the war is over; they will inflate prices now and have no means of preventing deflation when the war is over. But if they save their money now and invest it in thrift stamps and liberty bonds, they

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will not be bidding against the government for goods and men; consequently they will not be inflating prices now. When the war is over they will have money with which to increase their purchases of goods, and therefore they will have the power to prevent a deflation of prices. The program of war thrift is not only a sound method of financing the war, it is also the best method of insuring against deflation of prices and general business stagnation in the decade after the war.

When a man invests a part of his income in government securities instead of spending it all for immediate consumption, he is merely deferring his consumption. Instead of consuming goods now, he virtually saves up his money in order to buy them later on, when men can be spared to produce them as they can not be spared now. There is a double advantage in this. By consuming less while the war is on, he releases man-power from the production of things which he can do without. That man-power is therefore available for government service. By thus saving in the present, he will have more money to spend in the future. He can then increase his consumption and employ the man-power which will be released from government service.

The first of these purposes, that is, the releasing of man-power from the production of luxuries in order that it may serve the government, is by far the more important of the two, but even the second, that of reemploying that man-power when the government is through with it, is of great importance, especially to business men and laboring men. It would be a very short-sighted policy to ignore either of them, but the beauty of it is that both purposes hang together. You can not promote one without also promoting the other. Therefore, every enlightened citizen should preach and practice war thrift.

The sound common-sense of the people of every nation that ever amounted to anything has always approved of thrift and disapproved of extravagance. It is only when a few half-educated people get slightly sophisticated that they begin to indulge in the pestilential nonsense that we prosper by extravagance. The thrifty person spends money, and spends it freely, for things

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of large and permanent value, or for things which leave him stronger physically, mentally, morally or economically. Such people get on in the world while the thriftless people never improve their condition. The thrifty nation likewise prospers while the thriftless nation remains in poverty. The thrifty nation is the nation to which men immigrate to improve their condition. The thriftless nation is the nation from which they emigrate to get away from bad conditions.

The largest, the most important, and far-reaching purpose for which a man can spend his money now is for national defense. He who spends his money in such a way as to insure the future of our country may not be laying up treasure in Heaven, but he is certainly laying up treasure on earth for his children and his children's children. Besides, our government pays the money all back with interest. It is this latter aspect of the case which will be of great importance in the days of reconstruction. It is this which will enable us to tide over that trying period when we are reabsorbing into productive industry the man-power which is now absorbed by the war and the war industries.

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CHAPTER V

Compulsory Thrift

In case the people do not voluntarily adopt the general program of thrift, they will be compelled by circumstances to reduce their consumption whether they like it or not. There are three principal means by which this will be accomplished. The first, the most clumsy and the least scientific method is through the direct exercise of official compulsion in giving priority to certain industries. Those industries which the wisdom of public officials decides to be non-essential may be refused raw materials, fuel or transportation. The consumers of the products of the industries thus singled out for official strangulation must, of necessity, reduce their consumption. To a Prussianized mind this doubtless looks like a very direct and effective way of compelling people to consume what they ought to consume and stop consuming the things they ought not to consume. Even this method is, of course, justified if there were no better method. The necessities of the war situation require that the war and the war industries shall have precedence over everything else. The redirection of our national energy must be effected somehow, and a bad way of doing it is infinitely better than not getting it done at all. The government is compelled to resort to this method if the people will not do it in a better way, and should not be criticized. The people who have made it necessary should criticize themselves.

Another way of accomplishing the same thing is through the inflation of prices. If the people are not willing to economize, but insist on buying as much as ever, they merely bid against the government. The government will have supplies whatever the cost. It will bid high enough to get them away from its

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private competitors. This forces prices up, and rising prices make it impossible for people with fixed incomes to buy as much as they did before. They at least are forced by this situation to reduce their consumption.

This method would not work so very badly, from the standpoint of the immediate present, if all the people had fixed incomes. Some of the people, however, find their incomes increasing as fast as, or faster than, prices rise. The producers of the high-priced commodities, especially those whose income comes to them in the form of profits, may find themselves in a position of greater relative prosperity. Their incomes are so increased as to enable them to buy more goods, even at the high prices, than they ever bought before. This throws the compulsory saving entirely on those whose incomes do not keep pace with prices.

Other classes, especially those whose incomes take the form of wages or salaries which are frequently readjusted, begin an agitation for increased wages and salaries on the ground that they are not able to live so well in war time as they did in peace time. It does not seem to occur to them that men ought not to live so well in war time as in peace time. The story of the agitation for increased incomes which will enable people to buy as much under war prices as they bought under peace prices is, on the whole, one of the most sordid and humiliating parts of the history of the war. It is only exceeded by the story of the opposition to heavy taxation.

The final result of the tendency of profits to increase, and of the prompt agitation for increased wages and salaries, is to throw the entire burden of this kind of enforced thrift upon those whose incomes can not be increased in war time.

By far the most scientific and least clumsy method of enforcing thrift is the third method, that is, the method of taxation. A properly adjusted system of taxation will compel all classes who are in a position to economize to do so during the continuance of the war. It will retard or prevent the inflation of prices, and it will leave to the people themselves to decide what

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they will continue to buy and in what quantities they will continue to buy them with their diminished incomes. The people themselves can, in general, decide more intelligently than Washington officialdom what they want, and what industries should be kept going to supply their wants. A reduction of consumption will be made necessary by reason of the reduced incomes resulting from heavy taxation, but the people themselves can then decide what they will buy with their reduced incomes. They will generally decide that question more wisely than it can be decided for them by priority boards or any other branch of a bureaucratic system of control.

Under a wise system of taxation, and in so far as the taxes affect the question, private purchases must of necessity decrease in exact proportion as government purchases increase. For every dollar which the government has to spend, some private individual has a dollar less to spend. This is the most exact and scientific way yet devised to prevent private individuals from bidding against the government and inflating prices.

It seems to be accepted as a foregone conclusion, however, by certain students of public finance that such a war as the present one could not possibly be financed either exclusively or mainly by taxation. Borrowing on a vast scale is therefore assumed to be necessary. It does not seem to the present writer that any one has set forth adequate reasons for this view. The purpose of this note is to discuss the general aspects of this question, without going into detail as to the particular forms or methods of taxation which should be adopted.

There may be differences of opinion as to just what is meant by the word "impossible" as it is used by those who assert the impossibility. That very heavy taxes would be required if the government should undertake to pay the expenses of the war without borrowing, and that such heavy taxes would profoundly disturb business affairs, may be taken for granted. If the effective incomes of the people are materially reduced by taxation, they will have materially less to spend, and this alone will greatly disturb all businesses whose function it is to supply the people

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with what they want to buy with their spending money. But the same is true of borrowing. Unless the people find means of purchasing government bonds without reducing their purchases of other things, the same disturbance of business will occur. What they spend for government bonds would, in this case, be as effectively diverted from the normal course of expenditure as though the same amount were spent in the purchase of tax receipts.

If, on the other hand, the people find means of purchasing government bonds without reducing their purchases of other things, another kind of disturbance in the form of an inflation of prices will result. Whether this form of disturbance is worse than the other or not need not concern us here, since we are discussing the possibility of raising enough revenue by taxation, not with the relative merits of this and some other method. It may be remarked, however, that to turn money over to the government in the form of a loan and then proceed to bid against the government for supplies by undiminished purchases is, in part at least, to nullify the loan. It is virtually to turn some money over to the government and then compel the government to pay a higher price for its supplies. To turn the same amount of money over to the government and then, by that full amount to reduce one's own purchases, is to give the government the full benefit of that money.

It is of the utmost importance that we distinguish at the start between the economic and the political limits of taxation. By the economic limit is meant how much the people *could* pay in the form of taxes if they were willing. By the political limit is meant how much they will be *willing* to pay. From the standpoint of the legislator and the administrator the latter is quite as important a question as the former. No matter how much the people could pay in the form of taxes, he dare not put upon them more than they are willing to pay. If heavy taxes would provoke resentment and political revolt, it would be a great mistake to levy them. Just as it is better to lose a dozen battles than one election if losing an election meant a

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vote against the continuance of the war, so it would be better to adopt the most clumsy and unscientific method of raising revenue than to lose an election if it stopped the war prematurely. From the standpoint of any government authority it might literally be impossible, therefore, to finance a war by taxation even though the people were abundantly able to pay all the necessary taxes.

Even an academic economist who was giving advice to the government as to what it ought to do in the matter of war finance would be compelled to have regard to the political limits of taxation. If, however, our academic economist were not advising the government but the people themselves, the case would be different. If he were trying to influence the decision of the government official who had the immediate power of deciding the question, he would, of course, consider the probable ratio of feathers to squawking. But if his purpose were to influence the people themselves and their decision as to what kind of a financial policy they would support, the question of squawking need not enter into his discussion. It would sound rather futile to tell the people, "you are abundantly able to pay such and such amounts in taxation, but you do not possess the necessary loyalty or fortitude, therefore you will resent such taxes and refuse your support to the government or the party which levies them. For this reason it is impossible to finance this war by taxation. You must therefore insist that your government should raise its money in ways which will be more pleasing and less irritating to you, that is, you must insist that the government borrow most of the money from you instead of taxing you beyond what is agreeable." The only sound and sensible reason for talking to the general public on the subject of war finance is to try to make them willing to support whatever method looks best on purely economic grounds. In so far as taxation is a good method, the purpose of public discussion is to make the people *willing* to pay whatever they *can* pay in this form, not to convince them that they *can't* pay more than they are *willing* to pay.

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Assuming that we are considering the limits of taxation from the standpoint of the general public and not from that of the government, the legislator, or the tax administrator, and that we are therefore interested in the economic rather than the political limits of taxation, to what extent and in what sense would it be impossible to finance a war of this magnitude by taxation alone? In the first place, and with some qualifications which will be mentioned later, the average man can, if he is willing, pay as much in the form of taxes as he can in the form of loans. A tax receipt is less desirable property than a government bond and he may not be so willing to buy the one as the other, but so far as his ability is concerned, it is as great in the one case as in the other. The present writer can testify that, in his own case, at least, every dollar that he has spent on government securities, he could have spent, quite as easily, but much less gladly perhaps, in taxes. The government may be able to coax more money from the average man's pocket by offering him a bond than by offering him a tax receipt, but that is a political rather than an economic question, though it is a very important and a perfectly legitimate question for the government to consider. The people who are to be taxed are not compelled to consider it at all. If, therefore, we were to consider the question in this general form, without the qualifications which are to follow, we should have to conclude that it is as easy to finance a war by taxation alone as by borrowing or by a combination of both. Men can not lend the government any more money than they are able to part with, and if they are able to part with it at all, they could part with it in the form of taxes as well as in the form of loans to the government.

The first qualification to this sweeping conclusion is based on the fact that a government bond is an asset while a tax receipt is not. A man who possesses a government bond is, other things equal, better off, more solvent, further from the verge of bankruptcy, and has better credit than he would have if he merely held a tax receipt for a like amount. A government bond is bankable but a tax receipt is not. A man who is doing business

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partly on credit, will be in a much better financial condition and may carry on his business with less disturbance after he has spent a large amount on a government bond than he would be if he had spent a similar amount in taxes. In some cases this is a matter of great importance. On the other hand, this leads to a very dangerous tendency, not so much on the part of the business man as on that of the general consumer. He is tempted to use his new asset as a basis for credit, and to continue purchasing goods in undiminished quantities, thus inflating prices, producing profound business disturbances and necessitating wholesale economic readjustments. This consideration goes a long way toward nullifying the advantage of unimpaired credit to the business man.

Another and a more important qualification is that any tax system is inflexible and mechanical in its operation. Because two men, A and B, have equal incomes it does not follow that they can part with equal sums of money with equal disturbance to their economic relations. A may be engaged in a business which, in the interest of the war, ought to be expanded, while B may have no such opportunity. A, for example, may be a wheat grower who needs a tractor to enable him to increase his crop, while B is a manufacturer of confectionery whose business ought to be contracted. If both are taxed, let us say, to the amount of one-fourth of their incomes, it might prevent A from buying the tractor and therefore restrict his production, whereas B might continue on his former scale of production. A government loan, however, can adjust itself more easily to the situation. A might better put all the money he can part with into the expansion of his business, whereas B might put half his year's income into government bonds, even allowing his plant to deteriorate somewhat through depreciation. In this case, the government has secured as much money as it would if it had taxed them both to the amount of one-fourth of their incomes. At the same time it has permitted A to expand a business which needed expansion and B to retrench in a business where retrenchment was desirable.

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On the other hand, there is the possibility that the opposite result would follow — that is, it is quite possible that A, who ought to buy a tractor and increase his production of wheat, would decide to buy a government bond instead, and that B, who ought to retrench his business, would refuse to buy the government bond and put all his surplus money into advertising or into a bigger selling organization or other means of counteracting any tendency of his business to contract. If this were the result of the government loan, it would obviously be better to tax them both equally. As to what would be done by the average man in the position of A or B, we can only conjecture on the basis of our knowledge of the ordinary economic motives. Individual men react in very different ways to the same situation, but we must expect that on the average and in the long run, a larger number will react in the direction of their economic interests than in the opposite direction. Among the multifarious motives that affect the individual's choice, the desire for gain is one, and a persistent one. It would undoubtedly be to the wheat farmer's economic interest to grow more wheat at a time when there is a great demand for it and it is selling at a high price. If the possession of a tractor would greatly enlarge his production, he would have a powerful motive for desiring to possess the tractor. This motive would also be supplemented by the patriotic motive of desiring to help in the supplying of the nation. Therefore, he would, in all probability, be likely to spend as much money as he could part with for a tractor rather than for a government bond, if he could not afford both. The same principle would apply to every one else in the position of A, that is, of every one engaged in a business for whose product there was an extreme demand. As to those in the position of B, the case is not quite so clear, but if the demand for confectionery is actually falling off, it would not be in harmony with B's economic interests to invest much new capital in his business. The opportunity to invest in a government bond would appear to be somewhat more favorable as compared with the opportunity to invest any new capital in the manufacture of a commodity for

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which there was a decreasing demand. Again, the motive of patriotism would pull in the same direction and we should expect that a large proportion of the men in B's situation would spend their surplus money on government securities rather than in the expansion of their business. Therefore, it looks as though government borrowing would be more flexible and less mechanical than government taxation as a means of raising the same amount of money. The impact would fall where it would produce on the average less of a shock than would be true in the case of taxes.

A properly developed and administered credit system, however, would help to minimize the difference. If the function of banking was conceived to be that of financing productive enterprises instead of being an advanced form of pawn-broking, the fact that A had an opportunity to enlarge his production of a much needed product would itself give him ample credit, assuming him to be honest. That is, it would be the function of his banker to finance any operation of A's which was economically sound. If by possessing a tractor he could add greatly to his wheat crop and the wheat crop was sure to sell at a high price, that in itself would be a sufficient basis for credit, assuming, again, the honesty of A. In such a case A could buy his government security out of his surplus income and then pay for his tractor out of its own future product. However, if the excess profits tax were injudiciously administered, it would destroy even this basis of credit. A would not be able to buy his tractor either out of present savings or out of future income.

There are certain minor qualifications which are frequently urged, but which have little or no validity. In the first place, it is urged that through an arrangement with his banker, a man can arrange to pay for his government bond in such ways and at such times as are most convenient, whereas the tax collector is less accommodating. That, however, is a mere matter of the administration of the taxing system. If government officials were less arbitrary, or were as willing to meet the convenience of citizens as a private agency is to meet that of its customers, this

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could be arranged. Perhaps, however, it is too much to expect that government officials will ever become so accommodating as this. In that case one of the limits of taxation would be the arbitrariness of government officials or, perhaps, their laziness or unwillingness to take the trouble necessary to accommodate the public.

Another qualification, which also proves to be invalid, is that while men must pay their taxes in cash, they can buy their government bonds on credit through the banks. In so far as this is merely a device through which the purchaser of a government bond can pay the money when it is convenient, this is covered in the preceding paragraph. In so far as it means a permanent or a long continued expansion of bank credit, so that men do not cut down their purchases of goods for their own use in proportion as they lend money to the government, it works badly rather than well. It merely inflates prices and forces the government to pay larger sums of money for given quantities of supplies, and therefore makes increased revenue in the form of taxes or loans necessary. It is of the utmost importance that if the borrowing policy is adopted, those who lend to the government should lend out of savings rather than through the expansion of their credit. Taxation has this undoubted advantage over borrowing. Taxation can not possibly be made a basis for expanded credit. They who are taxed must of necessity, therefore, pay their taxes out of savings.

There is another qualification which scarcely needs discussion, since even the most extreme advocates of the taxation policy accept it. It is that at the beginning of the war, when a large revenue is immediately required, borrowing must of necessity be resorted to because the machinery of taxation is slow in its operation and can only begin to yield a revenue after a number of weeks, or months, or possibly years have passed. Borrowing is the only method by which the treasury can be kept full during this initial period.

There are few who advocate a policy of taxation exclusively or a policy of borrowing exclusively. Practically everybody is

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agreed that there must be a combination of both. The only clear difference of opinion is as to which policy should receive the principal emphasis. Shall we encourage the government to tax as far as possible and borrow only that which is necessary to supplement the income from taxation, or shall we encourage the government to borrow all it can and then raise by taxation whatever is necessary to supplement the income from that source? The argument that the government can not raise enough revenue by taxation is usually urged in support of the latter policy. Properly understood, however, it seems to the present writer that it argues more strongly in favor of the former policy.

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CHAPTER VI

The Opposition to War Thrift

The slowness with which large bodies are set in motion is often adduced as an explanation of the time spent in preliminary discussion before action can be taken in a great democracy. Except by the assumption of almost autocratic powers on the part of the administration, nothing effective can be done in a democracy until a majority has reached a conclusion and made up its mind. This is usually a slow process and must be preceded by a vast amount of conversation.

Next to such vital questions as the building up of our army and navy, the organization of our war industries, and keeping our national treasury supplied with the means of paying the expenses of the war, no question has been more widely and vehemently discussed than that of war thrift. Whether our people should be urged to reduce their consumption to the necessaries of life or to spend their money freely even for things which they do not need, has occupied a great deal of time on the public platform and considerable space in the ephemeral press. In the free atmosphere of a public platform, the advocates of war thrift have had things very much their own way; but in the controlled channels of the public press, the advocates of extravagance have been favored. Since most of our newspapers and magazines live mainly upon the advertising of non-essentials, it has seemed at times as though such influence as they are supposed to exert has been thrown on the side of extravagance rather than of thrift. Very few newspapers, in fact, have been willing to publish anything in support of thrift, but their columns have been open to any kind of an argument which seemed to support the policy "business as usual," "generous buying," "keeping money in circulation," and so forth.

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In spite of numerous unqualified requests on the part of the President, the Secretary of the Treasury, and every one else in a position of great responsibility with respect to the war that the people practice thrift during the war, the attitude of the press remained, during the first year, hostile rather than favorable. It was not until the public utterances of the men in authority, supported by the persuasion of multitudes of speakers on the open platform, convinced the hard-headed, clear-sighted public that the newspapers were wrong and that the advocates of thrift were right, that the newspapers generally gave even a half-hearted support to the thrift campaign. Since then there has been a gradual modification of the tone of the public press. Until late in the spring of 1918 the characteristic advertisement in any of our large, metropolitan dailies warned people against too much thrift and advised them to buy freely, especially of the particular article mentioned in the advertisement. Since that time, many of these advertisements have contained a general, abstract endorsement of the idea of thrift, but urged the buying of the specific article in question as an exceptional case. This in itself is a very suggestive symptom of the general change in the attitude of the public. The reading public has in some way influenced the attitude of the editors. Instead of leading public opinion, the average editor tries first to find out what public opinion sanctions and then to see how vociferously he can advocate it. He has gradually found that the public does not approve his opposition to thrift and he is gradually coming around to a reasonable point of view with respect to thrift.

How uncompromising and arbitrary the editorial hostility to thrift was, is shown by a little episode which occurred in Boston early in the year 1918. A number of the Boston papers had been carrying a quarter-page advertisement which came to be known as the "We" and "They" advertisements. The advertisement was a general denunciation of those to whom it referred as "They," the "Enemy," who were urging thrift, and a general self-adulation of those who referred to themselves as "We," who advocated generous buying, keeping money in circulation,

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expanding business and so on. It did not advertise anything in particular, but urged generous and liberal buying in general. Not "business as usual," but "more business than ever," was a part of the general campaign of extravagance of which these advertisements were samples. A number of citizens of Cambridge, feeling somewhat incensed because of these advertisements, drew up a protest, signed it, and sent it to the papers which were publishing them. No attention was paid to the protest, but the advertisements continued for a short time and then stopped.[1]

A public-spirited citizen of Brookline, Mr. Sinclair Kennedy, sought to counteract the effect of these advertisements by asking the papers to publish extracts from addresses by President Wilson, Secretary McAdoo and Mr. Frank A. Vanderlip. This was refused. He then offered these extracts as paid advertisements at regular advertising rates on the same terms as the "We" and "They" advertisements had been published. His offer was refused by several of the papers. The following is a copy of a deposition which tells the story.

COPY OF AN AFFIDAVIT

I, Joseph P. Draper of Canton, Massachusetts, on oath depose and say that I am an attorney at law with an office at 15 State Street, Boston, Massachusetts, and that on March 5, 1918, Mr. Sinclair Kennedy of Brookline,

[1] The *Cambridge Tribune* published it. It ran as follows:

STRONG PROTEST AGAINST THE "WE AND THEY" ADVERTISING

We, the undersigned citizens of Cambridge, protest against the "We and They" advertisements which are appearing in various Boston papers, as calculated to do great harm to our country by interfering with war thrift as advised by President Wilson, Secretary McAdoo, and Mr. Vanderlip, of the war savings committee.

W. R. Spalding,
T. N. Carver,
A. B. Hart,
W. J. V. Osterhout,
Roland Thaxter,
Maria M. Cabot,
C. B. Gulick,
Paul H. Hanus,
Davis R. Dewey,
Rebecca Clark Winter.

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Massachusetts, requested me to make a contract with *The Boston Post*, a newspaper published in Boston, for the publication of a certain advertisement connected with the Thrift Campaign, a copy of which is as follows:

THE PRESIDENT

In his address to the farmers,
January 31, 1918, said:

"It means the utmost economy, even to the point where the pinch comes. It means the kind of concentration and self-sacrifice which is involved in the field of battle itself, where the object always looms greater than the individual."

THE SECRETARY OF THE TREASURY

In a statement published in the *Official Bulletin*,
December 28, 1917, said:

"The people of the United States can render the most far-reaching patriotic service by refraining from the purchase of all unnecessary articles, and by confining themselves to the use of only such things and the expenditure of only such money as is necessary to maintain their health and efficiency."

THE CHAIRMAN OF THE NATIONAL WAR SAVINGS COMMITTEE

At the Boston City Club,
December 3, 1917, said:

The government should have a free track in the workshop. It should have labor which is not competed for by unnecessary things. No matter how well we can afford to buy unnecessary things, no matter how well we can afford to do it, the government can not afford to have us do it."

That in pursuance of Mr. Kennedy's request, I called up the advertising department of *The Boston Post* by telephone and described the advertisement and was immediately referred to Mr. A. H. Marchant, the Manager of the paper. Mr. Marchant stated that he was acquainted with the advertisement as he had seen it in *The Boston Herald and Journal* (where it had appeared for two editions) and that he had notified his advertising department that if a request came from Mr. Kennedy for an insertion of this advertisement in the *Post*, Mr. Kennedy should be referred to him. He then told me that he considered that this advertisement was against public policy and that as a matter of principle he would not publish it in his paper. I called his attention to the fact that the advertisement merely contained quotations from the President of the United States, the Secretary of the Treasury and the Chairman of the National War Savings Committee and that the advice which the advertisement contained would seem accordingly to be given upon good authority. He declared that the Secretary of the Treasury had, he believed, changed his views upon the subject since the statement above quoted and that, as to the other authorities, short excerpts from speeches were often misleading and he considered these were. Notwithstanding what I said, he was of the opin-

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ion that the advertisement was a bad one and that he would not publish it.

That the foregoing is the substance of this telephone conversation which lasted five or ten minutes.

IN WITNESS WHEREOF I hereunto set my hand this twenty-ninth day of April, 1918.

(Signed) JOSEPH P. DRAPER.

Subscribed and sworn to before me,

(Signed) HENRY L. BURNHAM,

(Seal) *Notary Public.*

My commission expires January 10, 1924.

The Boston *Herald* accepted the advertisement and entered into a contract with Mr. Kennedy to publish the same material as a quarter-page advertisement. It was to publish four issues in all at $250 per issue, receiving the $1,000 in advance. After two issues the advertisement was stopped. Later on $500 was returned to Mr. Kennedy, for which Mr. Kennedy gave the receipt, a copy of which appears on page 57.

The *Evening Transcript* alone of all the Boston papers, carried the advertisement through four issues.

While federal officials and all those in positions of great national responsibility were clear in their advocacy of thrift as a war measure, unfortunately many State officials and members of Councils of Defense were more susceptible to the influence of local profiteers. The Massachusetts Council consistently refused to take any position in favor of thrift and such influence as it exerted was generally against thrift.

These cases are mentioned not because Boston newspapers were more venal or less loyal than papers in other cities. They are mentioned merely as concrete examples of a very general attitude on the part of publications everywhere which prosper largely on the advertising of non-essentials. The Philadelphia *Public Ledger,* in the midst of the Christmas shopping season of 1917, even went to the length of publishing an article by Will Payne to prove that there was no such a thing as a non-essential industry! Much the same attitude was taken by the *New York Times*[1] and a large number of others.

[1] See article in the issue of June 8, 1918, entitled "Edison Sees Luxury War-Winning Force."

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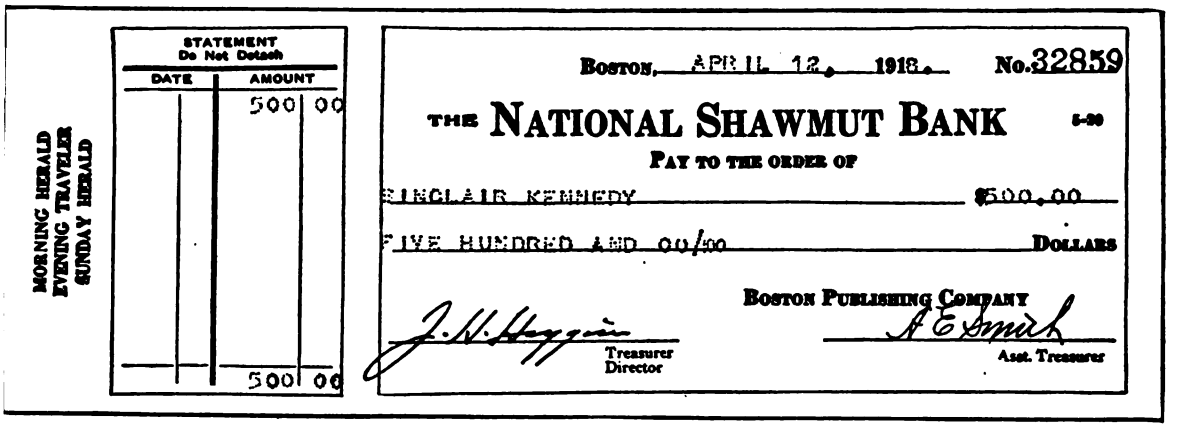

MORNING HERALD
EVENING TRAVELER
SUNDAY HERALD

STATEMENT
Do Not Detach

DATE	AMOUNT
	500 00
	500 00

BOSTON, APRIL 12, 1918. No. 32859

THE NATIONAL SHAWMUT BANK 1-20

PAY TO THE ORDER OF

SINCLAIR KENNEDY $500.00

FIVE HUNDRED AND 00/100 DOLLARS

BOSTON PUBLISHING COMPANY

J. H. Higgins
Treasurer
Director

A E Smith
Asst. Treasurer

Receipt is hereby acknowledged of five hundred (500) dollars, paid to Sinclair Kennedy by the Boston Herald and Journal for failure to carry out its contract to publish in its issues of February 26, 28, March 2 and 5, 1918, a quarter page advertisement consisting of quotations from President Wilson, Treasurer McAdoo, and the Chairman of the War Savings Committee, said advertisement having been stopped by the Herald after its second publication on February 28, 1918.

The Boston Herald and Journal joins herein in acknowledgment that the said sum is paid and received on account of the above described breach of contract, and in full of all claims on the part of said Kennedy.

Dated April 12 1918

Sinclair Kennedy
By Joseph P. Dinan
attorney

Boston Publishing Co.
J. H. Higgins Treas.

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During the summer of 1917, the writer traveled from the Atlantic to the Pacific Coast, visiting a large number of cities in all sections of the country. In nearly every city visited there were placards displayed in the windows of retail stores warning people against too much economy. The following is a sample:

BUSINESS AS USUAL
BEWARE OF THRIFT AND UNWISE ECONOMY
MONEY BREEDS MONEY

During the summer of 1918 the writer traveled extensively between the Atlantic Coast and the Rocky Mountains, visiting numerous cities in all the intervening sections of the country. No such placards were seen.

This growth of public opinion and general change of attitude on the part of the newspapers was, of course, not universal. Certain special publications which, even more than the average newspaper, live on advertising, continued to fight a losing battle in favor of high pressure selling, and the "efficient" persuasion of people to buy things which they did not need. There continues also to be sporadic cases of journals whose editors failed to grasp the situation, and kept on advocating liberal buying, and refusing to publish anything in favor of thrift. The *California Club Woman* was a conspicuous example of this type. But these humiliating exhibitions of editorial ignorance need not be catalogued further. The samples given are enough to show how many diverse interests there are in a great democracy to compete with what ought to be the supreme interest, that of massing our man-power upon the war and the war industries.

In the above mentioned article in the *New York Times,* Mr. Edison is alleged to have said:

> We hear a good deal of talk about luxuries. Luxury is a relative term. What is luxury for one man is almost a necessity to another. No matter what is said or done, the increased earning power of the American people

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is going to result in the increased purchase of luxuries, and the urge to possess luxuries will do more to speed up production than all the prize contests, bonus plans, and proclamations that can be devised. The laziest and most non-productive man in the world is the man whose wants are the simplest. The fellow who has a family that wants luxuries and is endeavoring to gratify them is the man who is usually working the hardest and producing the most.

Some of you may have been told that music is a non-essential. My views on that subject are probably well known to you. The time is not far distant when music will be recognized as a greater essential than books. Don't let anybody make you believe that music is a non-essential. Merchants who sell good musical instruments are performing a useful service to the nation.

The eminent source of this alleged statement entitles it to some consideration. That luxury is a relative term is, of course, a truism. It furnishes a valid argument against any attempt on the part of the government, or any other compulsory power, to decide upon a list of luxuries and to prohibit their use or consumption. Government officials, like other human beings are prone to

> "Compound for sins they are inclined to,
> By damning those they have no mind to."

What they would decide to be luxuries would very likely prove to be necessaries for some one else. Again when force from without rather than persuasion is exerted to compel a man to forego the consumption of things which he very much desires, the chances are that he will merely have one less motive for working. But the case is quite otherwise when, instead of peremptory government orders prohibiting the use of certain things, the individual is persuaded to care more for national defense, for the success of our armies, and the comfort of our soldiers than for some forms of gratification which he previously enjoyed. This does not reduce, but rather increases, the number of motives for work. Again, it leaves the individual free to decide what are, for him, the least essential or the least desirable luxuries.

The truism attributed to Mr. Edison therefore fails absolutely as an argument against a general campaign for voluntary thrift, as a means of making voluntary loans to the govern-

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ment. Such a campaign adds a new motive to industry, and will therefore make men work harder than ever. In order to enable the individual to buy the new article, that is, a government security, he is left free to decide for himself which one of his other interests he must sacrifice in order to satisfy this new interest.

As to the suggestion that music is an essential rather than a non-essential, the reply is — certainly, so also are coal, wheat flour, shoes, clothing and a number of other things. But all essentials should be used in moderation and not in non-essential quantities. To say that clothing is essential is not necessarily to imply that a man is justified in buying twenty, or ten, or even two new suits a year unless he really needs them for comfort and decency. Likewise, to say that music is essential does not necessarily carry with it the conclusion that it is essential in unlimited quantities. The individual who spent an inordinate amount of time or money in the passive enjoyment of music could scarcely excuse himself by repeating the general, abstract proposition that "music is essential."

However, if the government, or any other authority, should arbitrarily decide that all music was non-essential and forcibly prohibit it, no sensible person would defend such an action. But when the government urges economy upon all the people and asks them all to turn as much money as they can part with into the public treasury to be used in national defense, such an action is completely defensible. This will require every one who responds to the appeal to cast about to see where he can cut down his expenditures for private enjoyment with the least hardship to himself. Some may even find that they can, without serious loss, spend a little less upon music. Others will decide upon other forms of saving, and thus every one will reduce somewhat that form of consumption which is to him most luxurious or least essential. Any one who would oppose such a campaign with the same arguments or statements that he would use against an arbitrary prohibition of a definite list of luxuries, would show very little discrimination.

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CHAPTER VII

The Grounds of the Opposition

It is necessary to examine in some detail the grounds of the opposition to the policy of war thrift. The first objection and the one most frequently heard is that unless business is kept prosperous, there will be no means of financing the war; that is, no one will have the money with which to pay taxes or purchase government bonds.

To begin with, that proposition attributes a power to money which it does not possess. Money does no fighting and can not be used in beating an enemy. It is only a means by which the government hires the men and buys the goods which are effective in war. The fundamental and ultimate question is not, therefore, that of money, but of men and materials. If, by keeping business prosperous is meant keeping men and capital employed in the prewar industries, this argument would defeat its own ends, for however much money the government had, it could not get these men and materials without taking them away from some of the non-essential industries.

It is conceivable that a war might be carried on without any money whatsoever, though it would be exceedingly difficult. That is, if the government could sufficiently perfect its machinery, it could commandeer everything it needed and could conscript men for the mines, steel mills, the munition factories and so forth, and compel the whole business of supporting the nation and waging the war to proceed on the basis of a direct exchange of goods and services without the use of money. While this would be an exceedingly clumsy way to proceed, it might clarify our ideas a little if we could consider what would be involved. Instead of having a government Treasury to receive money and

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pay it out, we could, under this assumed case, abolish the Treasury and greatly enlarge the compulsory powers of the War Department. This department could put the whole civilian population on a military basis and detail men for different kinds of work, and command men and women to do the different things which are necessary for the carrying on of the whole national economy, as it now commands soldiers and sailors to do whatever is necessary to carry on the work of the army and the navy. In that case we could get rid of the illusion sometimes created by the use of money. In such a case as this, no one would doubt that in order to greatly enlarge one kind of work, certain other kinds of work would have to be diminished in quantity. The wise commander would concentrate the largest number of men on the kind of work where the largest number was needed and the smallest number of men where the smallest number was needed. This is just as necessary in a money economy as in a moneyless economy.

Another objection is based on the proposition that money breeds money — that it is only when money circulates rapidly that there is wealth. This, however, puts the cart before the horse, or reverses the relation of cause and effect. While money is a labor-saving device and enables us to do business with less trouble than would be necessary if there were no money, that is literally the end of its usefulness. It neither breeds nor begets in any way. It is a tool by means of which we accomplish more than we could accomplish without it. It circulates in response to a need, but its circulation does not create the need — that is to say, it has no power either to increase or decrease the speed with which it moves from hand to hand or from pocket to pocket. It is purely passive and moves rapidly when there is need that it should move rapidly and slowly when there is need that it should move slowly.

The argument that we should spend money freely even for things we do not need in order to make prosperity is precisely like the position of the little girl who spent her missionary money

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for confectionery in order that the confectionery maker might have money to give to the missionary cause. Undoubtedly the expenditure of her dime put a dime in the hands of the confectionery dealer. Out of that dime, he might conceivably if he were so disposed, give a small fraction to some public cause. If she had given it directly, the whole dime would have gone to the public cause. When spent for a thing which was not necessary, it neither increased her own power and efficiency, nor could it possibly help the treasury of the public cause as much as it would if she had spent it herself. Similarly, if the private citizen, instead of buying a government bond, should spend $100 for some non-essential, the maker of the non-essential would be, to a certain extent, prospered, and might conceivably devote a small fraction of the $100 to the purchase of thrift stamps, but he could not possibly devote the whole $100 to that purpose because he must spend a part of it to hire men to make the non-essential. Hiring men to make the non-essential is in effect hiring them to stay out of the essential industries. Let us suppose that he would make a profit of $5 at the end. In that case he could, if he felt like it, spend $5 in the purchase of thrift stamps. In that case, $5 would be spent by the government in hiring men to do essential things, but $95 of the $100 would be spent in hiring men to make the non-essentials. On the other hand, if the citizen had spent the whole $100 for a government bond, the whole $100 would then be available for hiring men to work in the essential industries. From the standpoint of winning the war, the country would be $95 better off if the citizen should spend his whole $100 for government bonds than it would be if, through the medium of the maker of non-essentials, he indirectly spent $5 for thrift stamps and $95 to hire somebody to cater to his luxurious tastes.

As was pointed out in Chapter II, thrift does not consist in hoarding money, but in spending it for the more important rather than the less important things. If it is desired that money shall circulate, it will circulate just as rapidly under a campaign

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of thrift as under a campaign of extravagance. The only difference will be in the channels through which it will circulate. In a campaign of thrift it will circulate in such ways as to stimulate the essential industries. In a campaign of extravagance it will circulate in such ways as to stimulate the non-essential industries. In the campaign of thrift it will employ just as much labor and business talent as in the campaign of extravagance. The difference will be that under the thrift campaign it will employ labor and business talent in the industries which help to win the war; whereas in the campaign of extravagance, it will employ them in the industries which do not help in winning the war.

Again, it is argued that if everybody should instantly begin economizing to the bone, it would take business a long time to readjust itself, and in the meantime there would be great economic disturbance. This argument is sound so far as it goes. However, there is little danger of such universal and instantaneous adoption of the policy of thrift. One might with equal wisdom warn a recruiting officer not to urge men too strongly to volunteer, lest every one should volunteer at once and overcrowd the offices and overwork the clerks. Such warning would be very flattering to the eloquence of the recruiting officer, but not many recruiting officers have ever been thus overwhelmed with volunteers. Again, one might in the same spirit warn an evangelist against preaching repentance too fervently, lest the people should, under his persuasive eloquence, rush to the front and overcrowd the sawdust trail. The danger is that people will be too slow rather than too prompt in responding to any such appeal. Until people show signs of economizing too much, there is no need to warn the advocates of thrift against the fervidness of their own preaching.

The dawn does not break suddenly; the light does not strike every mind at the same instant. If every one to whom the light of an economic truth comes would act instantly, it would still take a long time to convert a whole nation, and there would still be dullards enough to act as a drag on the process. In addition

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to this, there are enough false teachers and clever advertisers urging people to go on buying non-essentials to make it certain that more than enough will be bought.

It can not be too often repeated that mere business activity, regardless of its direction, is no indication of our ability to support the war, much less to win it. It is the direction of that business activity quite as much as its quantity which will determine the question. We need not be overawed by what is sometimes called the efficiency of the German Empire in war time. There is nothing mysterious or awe-inspiring about it. Her workmen are no more skilful than ours; her technicians are no better trained; her inventors are not so numerous nor so ingenious. She has gotten most of her inventions from other countries. Moreover, aside from the chemical industry, in which she has excelled the rest of the world, there is not a single large industry in which we did not excel Germany in time of peace. She has led in a few minor industries, but the same can be said of every country. In the large industries, such as agriculture, iron and steel, copper, the manufacture of automobiles, and a number of others which ought to figure largely in military efficiency, we led the world in time of peace. And yet, we seem woefully slow in redirecting this vast industrial power toward the winning of the war. Up to the present time (July, 1918) the Germans have succeeded in massing more men on the firing line and in keeping them better supplied with materials than we and our allies have succeeded in doing. There is only one reason for this. *The Germans are not doing anything else except make war.* They are not dissipating their energies. They are not wasting their man-power on non-essentials. They have not adopted the slogan "business as usual." They have massed all their man-power, and their woman-power as well, on the war and the war industries and those that are absolutely essential for the sustenance of the people. That policy, and that alone, accounts for the fact that they have been able to support such vast armies and keep them so well supplied.

If the Germans win and the Allies lose, it will be for the sole

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reason that they have concentrated their national energy on the war and the war industries, while we have dissipated ours on unnecessary luxuries for private consumption. If we win and the Germans lose, it will be for the sole reason that we have concentrated enough of our national energy on the war and the war industries to outnumber them on the firing line and to keep our soldiers better supplied with everything which they need. Every ounce of our national energy which we use for other purposes is just so much withdrawn from war purposes, and to that extent it jeopardizes the outcome of this war. Unless the government adopts the policy of universal conscription of labor, the only way in which we can redirect our national energy is by redirecting the spending of our money. We must stop spending so much of our money for things which have no connection with the war and begin spending more of it on things which help win the war.

If one wanted to be thoroughly disloyal, it would not be necessary to make anarchistic speeches on the street corner or other public places, or to urge men by word of mouth not to enlist, not to go into the shipyards or the munition factories, and not to go onto the farms to help produce food. Such a procedure would land one in jail, and very properly. The same result, however, could be achieved in other ways. One can hire men to stay out of the shipyards, out of the munition factories and off the farms by hiring them to make things which are not necessary — that is, by spending one's money on non-essentials. One's motive may be perfectly innocent and absolutely free from disloyalty, and yet however pure the motive, the result is the same. Ignorance of economic principles is sometimes quite as destructive as disloyalty.

Usually all people spend their money for the things for which they care most and deprive themselves of the things for which they care least. They who care more for the winning of the war than for the luxuries which they might purchase with their surplus income will quite naturally spend their money for the winning of the war rather than for the purchasing of these lux-

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uries. But they who care more for luxuries than for the winning of the war will, with equal certainty, continue to spend their money for luxuries.

When we used to read how Nero fiddled while Rome was burning we thought what an inhuman creature he was. Today the whole world is on fire. It is facing a greater disaster than that which threatened Rome when Nero fiddled. There are Neros among us who are thinking more about their own pleasure than about the present sufferings of the world or the greater disasters which threaten to overwhelm it.

If, instead of fiddling himself, Nero had hired others to fiddle for him, the case would have been worse. He would have wasted not only his own time but theirs as well when all were needed to save the city. Whether he hired them directly or indirectly would have made little difference so far as the ultimate result was concerned. Either method would have wasted man-power when every foot-pound was needed to put out the fire.

No one will doubt that when I buy something I am indirectly hiring some one to make it. If I buy something for my own pleasure or amusement I am indirectly hiring some one to please or amuse me. This is no better than to hire them to fiddle to me. No one would have blamed Nero for fiddling when there was nothing more important to be done. Neither could anybody blame me for hiring some one to please or amuse me under like circumstances. But when every foot-pound of man-power is needed to save the world from the greatest catastrophe which ever threatened it, I would be no better than Nero if I insisted on hiring men to make frills and luxuries for my own pleasure or amusement.

Any one who, in these days of impending doom, buys anything which he does not need for his own health, strength, or efficiency in the production of essentials is hiring some one to do something which is unnecessary. He is hiring some one to stay out of the essential industries. He is competing with the

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government for materials and man-power which it needs to win the war and preserve the liberties of mankind.

Nero fiddled because he cared more for his own amusement than for the salvation of the city. He cared more for his own amusement because he was that kind of a man. Similarly, if we buy non-essentials in these times, it will be because we care more for the personal gratification which they bring than for the great principles for which the civilized world is fighting. If we care more for these personal gratifications it will be because we are that kind of people. WHAT KIND OF PEOPLE ARE WE?

September, 1918.

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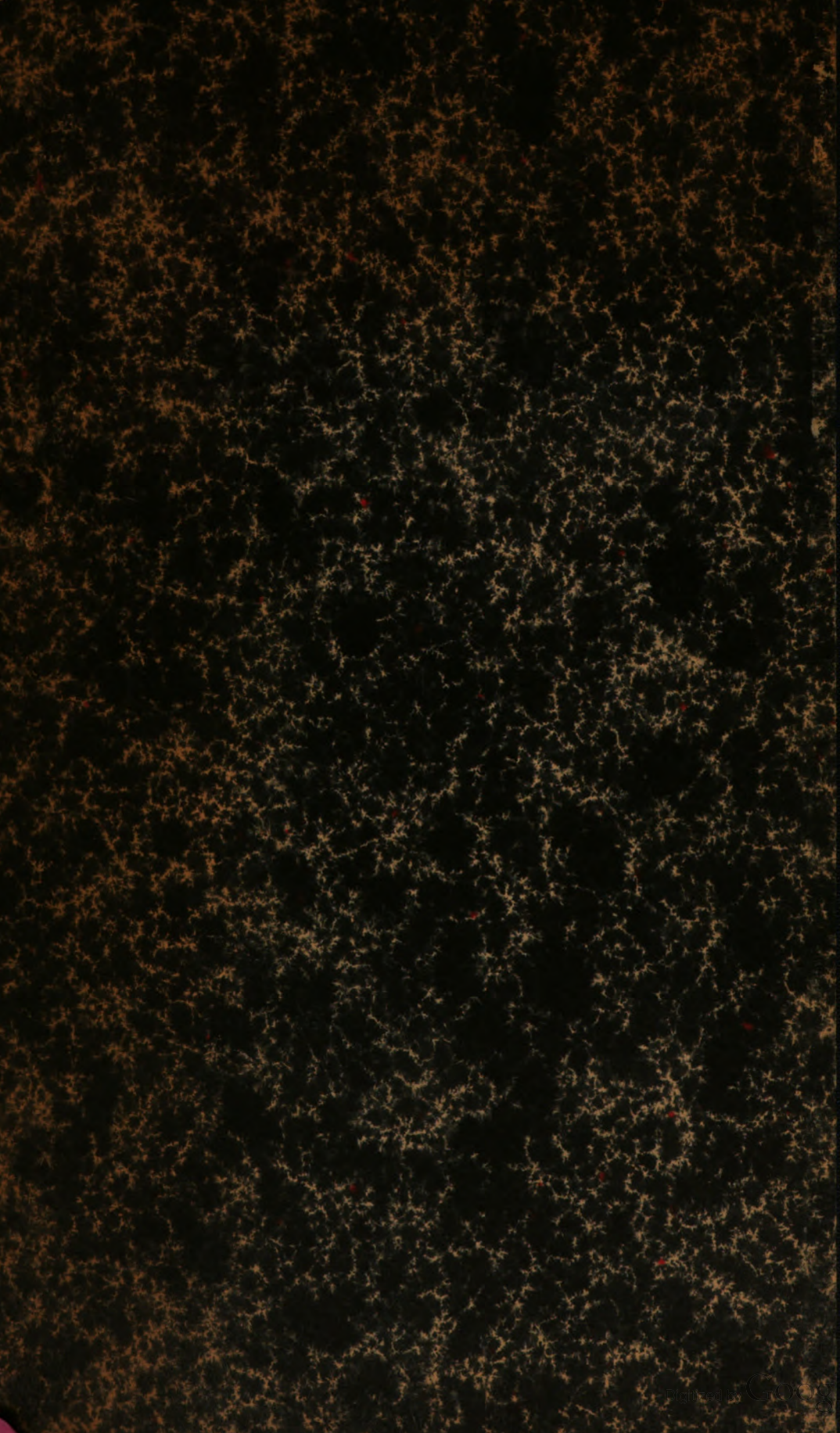
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